MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC1644 – PRINCIPLES OF FINANCE

(All sections/Groups)

2nd MARCH 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages (excluding cover page).
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Attempt all questions. All questions carry equal marks and the distribution of the marks for each question is given.

QUESTION 1

A. You are planning your retirement in 10 years. You currently have RM120,000 in a bond account and RM500,000 in a stock account. You plan to add RM5,000 per year at the end of each of the next 10 years to your bond account. The stock account will earn a return of 10.5 percent and the bond account will earn a return of 7 percent. When you retire, you plan to withdraw an equal amount for each of the next 25 years at the end of each year and have nothing left. Additionally when you retire you will transfer your money to an account that earns 6.25 percent. How much can you withdraw each year?

(8 marks)

B. An insurance company is offering a new policy to its customers. Typically, the policy is bought by a parent or grandparent for a child at the child's birth. The details of the policy are as follows:
Parent makes the following six payments to the insurance company:
First Birthday RM750, Second Birthday RM750, Third Birthday RM850, Fourth Birthday RM850, Fifth Birthday RM950, Sixth Birthday RM950.
After the child sixth birthday, no more payments are made. When the child reaches age 65, he or she receives RM350,000. If the relevant interest rate is 11 percent for the first six years and 6 percent for all subsequent years, is the policy worth buying?

(12 marks)

[TOTAL 20 MARKS]

QUESTION 2

A. Both Bond S and Bond T have 7 percent coupons, make semi annual payment, and are priced at par value. Bond S has 3 years to maturity, whereas Bond T has 20 years to maturity. If interest rates suddenly rise by 2 percent, what is the percentage change in the price of Bond S and Bond T? If rates is suddenly fall by 2 percent instead, what would the percentage change in the price of Bond S and Bond T? What does this problem tell you about the interest rate risk of longer term bonds?

(10 marks)

B. Best Corp is growing quickly. Dividends are expected to grow at a rate of 25 percent for the next 3 years, with the growth rate falling to a constant 6 percent thereafter. If the required return is 13 percent and the company just paid a RM2.50 of dividends, what is the current share price?

(6 marks)

Continued...

C. Ace Corporation is expected to pay the following dividends over the next 4 years: RM3, RM10, RM15 and RM3.08. Afterwards, the company pledges to maintain a constant 5 percent growth rate in dividends, forever. If the required return on the stock is 11 percent, what is the current share price?

(4 marks)

[TOTAL 20 MARKS]

QUESTION 3

A. Ellen Bhd has the following two possible projects. The required return is 10%

Year / Project	0	1	2	3	4
Project W (RM)	-31,000	14,000	12,400	14,800	10,400
Project T (RM)	-60,000	24,000	23,000	22,000	21,000

i. What is the profitability index for each project?

(4 marks)

ii. What is the NPV for each project?

(4 marks)

iii. Which project should the company accept?

(2 marks)

B. Suppose you own stock in a company. The current price per share is RM25. Another Company has just announced that it wants to buy your company and will pay RM35 per share to acquire all the outstanding stock. Your company's management immediately begin fighting off this hostile bid. Should management acting in the shareholders' best interests? Why or why not?

(2 marks)

C. For the most recent year, Grolly Bhd had sales of RM435,000, cost of goods sold of RM219,600, depreciation expense of RM59,300, and addition to retained earnings of RM51,500. The firm currently has 20,000 shares of common stock outstanding, and the previous year's dividend per share were RM1.25. Assuming a 34 percent income tax rate, what was the times interest earned ratio?

(8 marks)

[TOTAL 20 MARKS]

Continued...

QUESTION 4

A. Given the following information for Lana Bhd, find the Weighted Average Cost of Capital (WACC). Assume the company's tax rate is 38 percent.
Debt : 8,500 7.8 percent coupon bond outstanding, RM1,000 par value, 20 years to maturity, selling for 105 percent of par; the bonds make semiannual payments.

Common Stock : 210,000 shares outstanding, selling for RM83 per share, beta is 1.15.

Preferred Stock : 12,000 shares of 5.75 percent preferred stock outstanding, currently selling for RM98 per share.

Market: 8 percent market risk premium(Rm) and 4.2 percent risk free rate (Rf).

(12 marks)

B. Killa Bhd expects an Earnings Before Interests and Taxes (EBIT) of RM43,000 every year forever. Killa currently has no debt, and its cost of equity is 13 percent. The company can borrow at 8 percent. If the corporate tax rate is 38 percent, what is the value of the firm? What will the value be if the company converts to 50 percent debt? To 75 percent debt? To 100 percent debt?

(8 marks)

[TOTAL 20 MARKS]

QUESTION 5

A. Almond Bhd is comparing two different capital structures. Plan 1 would result in 8,500 shares of stock and RM313,500 in debt. Plan 2 would result in 12,000 shares of stock and RM198,000 in debt. The interest rate on the debt is 10 percent.

i. Ignoring taxes, compare both of these plans to an all-equity plan assuming that EBIT will be RM53,000. The all-equity plan would result in 18,000 shares of stock outstanding. Which of these plans has the highest EPS? The lowest?

(4 marks)

ii. In part (i), what is the break even level of EBIT for each plan as compared to that for an all equity plan? Is one higher than the other?Why?

(4 marks)

iii. Ignoring taxes, when will EPS be identical for Plans 1 and 2?

(4 marks)

Continued...

B. Yue Yue has a long term debt ratio of 0.45 and a current ratio of 1.25. Current liabilities are RM2,385, sales are RM10,435, profit margin is 8 percent, and Return on Equity is 14 percent. What is the amount of the firm's net fixed assets?

(8 marks)

[TOTAL 20 MARKS]

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